

ECB sets out conclusions of desk mapping review

AT A GLANCE

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What's new?

- In a [blog](#) post on 19 May 2022, European Central Bank (ECB) Supervisory Board Chair, Andrea Enria, set out the ECB's expectations on risk management and booking model practices of EU banking entities that are headquartered overseas.
- This follows the ECB's 'desk-mapping' review exercise which sought to assess the governance and risk management capability of EU banking entities of overseas banks.
- The ECB has previously expressed concerns on the way in which international banks have restructured EU operations post-Brexit. [In 2018](#), the ECB clarified supervisory expectations that banks need to retain control and oversight of balance sheet risk in the EU, including through local risk management staff.

What does this mean?

- The ECB's desk mapping review focussed on analysing booking and risk management practices across 264 trading desks at seven banks and affiliated investment firms.
- The ECB's primary objective was to ensure that EU banking entities of overseas firms have prudentially sound risk management arrangements and a local presence which supports effective ECB supervision and is commensurate to the risks these firms present.
- The review identified concerns over firms using back-to-back or remote booking and a reliance on risk management hubs and financial infrastructures located outside the EU.
- Of the trading desks analysed, 70% were identified as using back-to-back booking models and a further 20% were organised as split desks with a primary desk located overseas.
- Of the 264 trading desks reviewed, the ECB concluded that 56 required targeted supervisory action as a result of its findings.
- For the desks identified as material, the ECB will be issuing individual binding decisions for each firm.
- This may require the firm to:
 - appoint a head of desk in the EU with reporting lines and compensation structure linked to the EU entity
 - ensure there is an adequate number and seniority of traders to manage risk locally
 - establish enhanced governance and control frameworks for remote booking practices
 - ensure limited reliance on intragroup hedging.
- The ECB maintains there are no specific targets for the relocation of banking business to the EU, with the primary focus being to

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ensure governance and risk management arrangements are commensurate to the prudential risk these firms present.

- The extent to which firms will be required to relocate specific staff or amend booking arrangements will depend on the individual practice of each firm and its interpretation of the ECB's supervisory expectations.

What do firms need to do?

- Non-EU banks with EU banking entities should continue to engage with the ECB and other EU regulators in order to meet relevant regulatory and supervisory expectations.
- When engaging with EU authorities, firms should continue to make the case for the optimal risk management strategy for their business and across legal entities, in particular where centralised risk management is more effective when servicing EU clients.
- Firms should also take into consideration relevant PRA rules and guidance with regards to their UK operations and risk management practices and take a balanced view on any potential changes to operating model.
- European authorities, including the ECB, are expected to continue their post-Brexit focus on the cross-border activities and operating models of EU banking entities headquartered overseas.
- In October 2021, the European Commission issued a package of reforms (CRD 6) that proposed reform to the treatment of third-country banks' activities in the EU. See our [At a glance](#) publication on this topic for more information.
- Increasing attention from European authorities on the structuring of cross-border EU activity means firms should continue to ensure that their entity and operating model is aligned to meet potentially conflicting stakeholder requirements.
- It will be important for non-EU banks operating in the EU to consider the impact of the ECB's expectations and the measures in CRD6 on their operating model and attempt to balance the need to meet regulatory requirements with an efficient model.

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Next steps

The ECB is expected to contact firms identified through the desk mapping review as requiring targeted supervisory action.

The ECB will also continue focus on banks' post-Brexit operating models through its reviews of credit-shifting techniques, the reliance on parent entities for funding and liquidity, and internal model approvals.

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